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of the decline can be found in the increasing average security of investments, and how far a subjective explanation must be sought in the gradual change in men's esteem of future as compared with present goods, M. Jannet does not ask; nor does he inquire whether all these causes of the decline of interest—if, indeed, they all be causes—are likely to operate in the future. Still a considerable change in any one of them might invalidate his consoling conclusion.

The existence of many evils, more or less closely connected with the use of credit, M. Jannet does not deny. On the contrary, his condemnations of the manipulation of the market by fraudulent rumors, of the bribery of the press by the promoters of doubtful speculations, etc., are emphatic, and are supported by a wealth of fresh detail. Close observation of the world of money is indeed traceable upon almost every page of the book, but everywhere also the influence of ecclesiastical training. M. Jannet sees, apparently, nothing incongruous in judging the decision of the court in the Mogul Steamship Company cases by the light of the schoolmen's conceptions of *pretium justum supremum, medium, infimum*; the London *Economist* and the "*Summa Theologica*" of Thomas Aquinas repeatedly figure in close proximity in his notes.

The beneficent designs of Providence being assumed, a natural remedy for such evils as exist is "the union of honest men upon the financial field," for "banking and financial affairs, conducted according to the principles of morality, and upon the basis of scientific data, cannot fail to give profits proportioned to the services rendered." It must be pleasant to believe that.

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*Grundriss der politischen Oekonomie*, Von Dr. EUGEN VON PHILIPPOVICH. Erster Band; *Allgemeine Volkswirtschaftslehre* (aus *Handbuch des oeffentlichen Rechtes*: Einleitungsband). Pp. viii and 348. Leipzig: J. C. B. Mohr. 1893.

What gives to this new book of Professor von Philippovich its special interest and value is the fact that its author occupies, as an economic thinker, a position midway between the Austrian and the German economists. In it he has understood how to sum up, in a compact form, what is best in the work of both schools. His ideas concerning scope and method, concerning value, price and money, reproduce, with unimportant modifications, the doctrines made classical by the writings of Menger and Böhm-Bawerk. On the other hand, in the general form of his work, in his constant use of statistics and more particularly in his books upon "production" and upon the

"economico-political parties," one sees plainly the influence of the Historical School.

Although a born Viennese and a former pupil of Professor Menger, Dr. von Philippovich has enjoyed, during the last eight years, an independent and, to some extent, isolated position as Professor of Political Economy at Freiburg. The results of this opportunity for independent thinking appear upon every page of his latest work. It is characterized throughout by an extreme temperateness of tone and fairness in the treatment of rival theories.

The volume designs to describe and explain the phenomena of our present industrial ("*Verkehrswirtschaftlicher*") organization and the laws governing the relations of these phenomena to each other. It will be followed by a volume explaining the development which this organization is undergoing under the influence of different economic groups in society and of the State ("*Volkswirtschaftspolitik*") and the series will be completed by a third volume treating of public finance.

In the opinion of Professor von Philippovich the treatment of theoretical political economy follows most naturally the lines laid down by industrial life itself; first comes the production of economic goods ("*Produktion und Erwerb*"), then the exchange of these goods upon the market and their transfer from place to place; third in order comes the income-formation growing out of this production and exchange, and finally the consumption of these goods. "These," he says, "are the fundamental facts of industrial life, no one independent of the others, each one necessarily involved in the others, but, nevertheless, the plainly visible links in the unbroken chain of economic phenomena." In actual life, he continues, there are none of the sharp divisions assumed by science. Expediency alone must determine where the boundaries shall be placed. In the case of our science, it appears to Philippovich that the old division into production, exchange, distribution and consumption is, still, more expedient and less misleading than any less natural division; however calculated this latter may be to throw certain classes of hitherto neglected considerations into a desirable prominence.

Preceding the three books constituting the body of the work he has deemed it desirable to throw into one book a discussion of what he calls the "limitations upon the development of a people's economy" ("*Entwickelungsbedingungen der Volkswirtschaft*") *i. e.*, the conditions of and motives to economic activity springing from the natural environment, the social organization and the personal characteristics of a people. The fifth and final book is more in the nature of an appendix to the *Volkswirtschaftslehre* proper. It

treats of the "economico-political parties," with especial reference, of course, to Germany.

In examining any system of economics the parts to which one naturally turns are : (1) the introductory portion, including the views advanced concerning (a) the starting point in economics, (b) scope and method of the science, (c) the nature of economic laws ; (2) the chapters dealing with value, price and money ; (3) the chapters upon distribution, and (4) the portion treating of consumption. In the following review we will take up the views of Philippovich in the order suggested.

I. Introductory. Economics has to do with all phenomena and institutions connected with the regular provision of mankind with *material* goods. Material goods are objects of desire only so far as they are deemed, rightly or wrongly, capable of satisfying wants. It is to satisfy their wants that men put forth economic activity. The starting point in economics is, therefore, an analysis of *human wants* as directing the activity, whose goal is the satisfaction of these wants through material goods. The means by which wants are satisfied are called technically *goods*. In the opinion of Philippovich, it is expedient to limit the connotation of the term "economic goods" to *material* things. Economic goods are further (in distinction from free goods) only such things as are available for human employment in quantities limited in comparison with the real or supposed need for such things.

In excluding from the category of economic goods (1) services and (2) legal rights and relations having value, Philippovich follows the lead of Sax and Wieser, in opposition to Böhm-Bawerk, who would include services, and to Menger, who would include both. He justifies his position by saying : "Services . . . are a means of creating goods, but are not goods themselves. They can be neither preserved nor accumulated in stock, nor produced through the employment of other goods ; in short, they stand in sharp opposition to the material ends of economic action" (p. 5). In other words, in his opinion, the meaning of the term *goods* in economics should be fixed by a reference to production rather than to exchange. To Menger and Böhm-Bawerk the essential moment is the possession or non-possession of value. The term *goods* is one of the few in economics having a strictly technical sense. Whether this sense shall be limited, as Philippovich proposes, or not, is simply a question of scientific nomenclature to be decided by a reference to expediency. Professor Philippovich has maintained consistently throughout his whole book his narrower conception.

Being aware that the satisfaction of our wants is dependent upon economic goods, we ascribe to the latter *value*. The value of a good

to us is thus the importance we ascribe to it as the means of satisfying some want. Free goods have no value.

By production, he understands, the creation of utilities through human activity. The vast majority of goods have to be produced. Consumption, the destruction of utilities, determines the direction which production shall follow ; on the other hand, production limits consumption.

Our consumption is directed by our wants, but as consumption is limited by production, which in turn is limited by nature and population, the degree of want satisfaction, attainable at any period, depends, at last analysis, upon the gifts of nature and the population, qualitatively as well as quantitatively considered, capable of appropriating these gifts.

The goods resulting from a productive process are called its *yield*. *Income* is that part of yield which takes the form of consumable goods. The end of economic activity is the securing of the largest yield and income for the least expenditure.

Our present economic order rests upon three principles : division of labor, private property and freedom of contract. Within the limitations set by these principles the most complicated economic phenomena are simply the results of competing self-interests. The present order has been a perfectly natural growth and hence we are justified in speaking of it as an organism. Its characteristic feature is that production is no longer for the purpose of direct consumption, but rather for exchange upon the market. Thus exchange, value and price are in our present economy the central facts about which all other economic phenomena naturally group themselves.

The task of political economy as a science is twofold ; it has, (1) to describe and explain the different economic facts and phenomena that present themselves at any one time and place, and the laws that govern their inter-relations ; (2) to compare the economic facts and phenomena presenting themselves at different times and places and thus to throw light upon the laws according to which the economic organism develops (*Entwicklungsgesetze der Volkswirtschaft*).

In his short paragraph upon *method* (pp. 23-25), Professor Philipovich follows Menger\* quite closely. He starts out with the statement that a discussion of the method or methods appropriate to political economy must be preceded by a classification of the economic sciences. On the one hand we have economics as a systematic

\* (a) "*Untersuchungen über die Methode der Sozialwissenschaften und der politischen Oekonomie insbesondere*." Leipzig, 1883.

(b) *Grundzüge einer Klassifikation der Wirtschaftswissenschaften*. Conrad's Jahrbücher, 1839.

science, which may simply describe economic phenomena and institutions, or may endeavor to explain their *typical* features and thus construct economic theory. On the other we have economics as an historical science, which may take the form simply of economic history, or of the science of economic policy (*Volks-wirtschaftspolitik*). Each one of these four economic sciences has to do with the whole field of economic phenomena and the truths belonging to each.

From pure theory must be distinguished *empirical* theory, which is obtained not by following out the economic principle by itself, simply, but by taking account of all principles serving as motives to human action and thus obtaining a picture of things as they are. We thus have in political economy *exact* and *empirical* laws which must be carefully distinguished if confusion is to be avoided. The first depends upon certain assumptions which are rarely, if ever, exactly realized in in practice; the second depends upon the commonest observation and experience and can be relied upon only to the extent that the phenomena observed are typical of the whole class to which the laws apply. The *science of economic policy* shows how any desired result may be accomplished in the economic field and rests upon the other economic sciences. It is, really, simply the application of the laws and principles furnished by them to the exigencies of every-day industrial life. To draft an ideal toward which the economic organization should be urged is no part of economics as such.

In his books on the "Limitations put upon the Development of the Economy of a People" and upon "Production" Philippovich displays his talent for concise and logical statement. Above all his masterly definitions in this part of his work deserve commendation. Upon the other hand, his failure to make use of interesting illustrations, makes these books, necessarily to a great extent descriptive in character, very heavy reading.

To the claim that the development of the present economic order is in the direction of socialism, our author replies that this is true only in so far as the tendency is in the direction of greater centralization. The ruling motive remains always that of self-interest; whereas, in order that socialism shall be anything more than the vague Utopia it has always been, it must be shown that this motive is gradually giving place to altruistic motives. The tendency is not in the direction of abolishing the institutions of private property, division of labor and freedom of contract upon which the present economic order rests, but rather, in our author's opinion, in the direction of modifying these institutions so that they may better serve the interests of society as a whole.

II. Value, price and money. His third book (*Verkehr*) is perhaps

the most important of all, owing to the fact that in it he has occasion to treat of the questions to the discussion of which the Austrian school has contributed so much.

At the basis of all our economic actions, he says, must be some judgment concerning the importance we ascribe to different goods and to the sacrifice involved in different forms of labor. This judgment is always comparative, and it is this which we have in mind when we speak of value. *Value* is thus the importance which we ascribe to any good, service, relation, etc., in consequence of the fact that we know our welfare to be dependent upon it. This is the simple conception of value in the *subjective* sense. Subjective value may be value in use or value in exchange. From it we must distinguish *objective value*, or the power of a good to produce some objective effect, which in turn takes the form either of objective use-value, of objective productive-value, or of objective exchange-value.

The problem of value as a subject for economic investigation is thus twofold; first, to explain how men measure so exactly the comparative importance to themselves of different goods, services, etc.; second, how these subjective valuations are combined so as to produce the phenomena of objective exchange-value and price. To solve the first problem, we must pass out of the economic into the psychic field of investigation. In general, we treasure any good according to the usefulness which it has for us. This usefulness depends for any particular good (1) upon the wants of the person making the valuation; (2) upon the available supply of goods of the kind being valued; and (3) upon the conditions limiting the increase of this available supply. The value of any goods under given conditions of supply and demand (these words to be understood in a technical sense) is shown to be measured by its marginal utility.

Following Böhm-Bawerk, he shows how the value of productive goods, "goods of higher orders" (Menger), depends upon the value of their products, and that in general the classical theory that value equals cost of production is a fair statement of the facts, though it is far from giving, or suggesting even, the correct explanation of these facts.

The value of any good, that may be reproduced, to any individual depends either (1) upon the loss in want-satisfaction involved in its non-possession (*i. e.*, its subjective use-value); (2) upon the sacrifice required for its reproduction; or (3) upon the value of the goods for which it may be obtained in exchange (*i. e.*, its subjective exchange-value). The individual acting in an economical manner will choose of these alternatives the one involving the least sacrifice of pleasure. Objective exchange-value is the power any good has to command

other goods in exchange. The quantity of other goods that may be obtained in exchange for any good is its *price*. As ordinarily employed, price is equivalent to *money-price*.

In fixing the price of any good, many non-economic elements play an important part. It is the task of theoretical political economy, first of all, to develop a law of prices depending only upon economic considerations. To develop such a law, we assume that all persons taking part in an exchange know what line of action will best conduce to their own economic interests, that they follow only that interest, and that their action is in no way restrained by artificial hindrances.

Following the line of argument adopted by Menger and Böhm-Bawerk, Philippovich deduces the well-known law of prices as dependent upon subjective value, and then goes on to show that the classical theory that prices tend to equal cost of production is really only a corollary of this general law.\* His statement of the laws of value and price is concise and logical in the extreme, and sums up most fairly the results of the discussions of Menger, Böhm-Bawerk and Wieser.

Again, in his treatment of money, we see him influenced, especially by the theories of Menger.† In this part of his work his talent for combining the results of the theoretical investigations of the Austrian school with the rich historical and statistical material which Germany has lately produced, into a systematic whole, is conspicuously displayed. In his remarks on bimetallism he shows himself quite in sympathy with the advocates of a double standard as an economist. As a politician, however, he is fully aware of the difficulties standing in the way of an international agreement upon this delicate question.

In his paragraphs upon the "value of money" he has occasion to speak of money as a standard of deferred payments. He does not overlook the fact, as some of the followers of the Austrian school seem to have done, that value is, at last analysis, a subjective phenomenon and that the monetary unit itself has a value, varying not only at different times, but at the same time for different individuals. In speaking of the value of a dollar at any one time, for instance, we can mean either its value to any particular individual or its average value to all the members of the economic community under consideration. This latter value will differ more or less decidedly from the value a dollar has for each individual, which depends upon the location of his margin of consumption, or, in other words, upon the extent to which his economic wants in general are satisfied. To ascertain with

\* For a detailed exposition of the Austrian theories of value and price, the reader may be referred to Smart's "Introduction to the Theory of Value." London, 1891.

† Compare Menger's article, *Geld*, in Conrad's *Handwörterbuch der Staatswissenschaften*.



any exactitude this average value of the monetary unit at any one time and at different times, it will be necessary to discover some tangible unit for measuring pleasures and pains. If such a unit for measuring strictly subjective phenomena were available, the problem of money as a standard of deferred payments would present no great theoretical difficulties. In just so far, however, as such a standard is unavailable, is the real value of the monetary unit at any one period and at different periods a subject for more or less vague speculation.

Bimetallists have very generally confused the question whether the value of money has risen or fallen in the last few years, with the quite different and decidedly simpler question, whether the purchasing power of the monetary unit as measured in certain goods, clearly defined both qualitatively and quantitatively and taken as representative of all goods, has increased or decreased and have thus rested their principal pleas for a more abundant money material upon a decidedly unscientific theory. It remains to be seen if, having corrected their fundamental error, they will still be able to show, which is likely, that the value of the monetary unit has risen and is still rising.

III. Distribution. As a result of production there is normally a *yield*. This *yield* must flow to some economic unit in society, or to several such units. The process by which the yield is distributed among or serves to build up the incomes of the individuals and groups in society is the subject of the fourth book of Philippovich's work. By income he means regular income in distinction from gifts, lottery-winnings, etc. The important question in distribution is how the various groups in society come to have just the claim they do against the yield of each productive process. A claim in the above sense is a demand against individuals. It rests either upon custom (fees, etc.), contract (wages, etc.), law (inheritance, etc.), or upon compulsion (as in time of war).

Under the régime of private property and freedom of contract income-formation is the resultant of the free valuation and counter-valuation on the market of labor strength and of use of property on the part of different buyers and sellers.

He classifies incomes as follows: (1) labor-income; (2) property-income, (*a*) rent, (*b*) interest; (3) profit; (4) insurance-income. The last is never the result of a productive process and hence has, in this connection, a minor importance. He prefers the term "income-formation" to "distribution," for the reason that the latter implies that the income of society as a whole is *distributed* among the members of society, *i. e.*, that it is connected with production. This, however, is only partially the case. In modern society individual income consists always, practically, of money or of money surrogates, *i. e.*, of

orders against the existing stock of goods of any and whatever kind. Society does not every year consume the goods it produces in that year. In other words, the formation of income belongs to exchange. Income is simply the price paid for labor-service, for the use of property or for undertaker's service. Monopoly incomes, like monopoly prices, result from natural or individual advantages, from legal restrictions, etc. Such incomes are called *rent*.

Coming to the question of what determines the share which each economic group obtains of the yield of society's productive undertakings, his treatment is in many respects original. He starts out with a discussion of profits, then takes up rent and interest, and, last of all, wages.

He follows Walker in treating profits as a phenomenon quite analogous to rent. Neither profits nor rent enters into cost of production, and therefore into price, but both are determined by prices. Profits, like rent, is a natural phenomenon. As long as human wants continue to change, prices will be variable, and it is upon variations in prices that profits, in the narrow sense of the term, ultimately rest. The real opposition then in distribution is between the interests of laborers and of capitalists. The more the one obtains, *caeteris paribus*, the less there is left for the other. Wages and interest are both price phenomena and, therefore, subject to the general law of prices. The application of this law, however, is rendered, in Philippovich's opinion, practically impossible in the case of the former owing to the fact that labor-service is not to be separated from the person of the laborer. For this reason, the principles regulating the supply of labor-services are very largely of a non-economic character.

Touching the scientific explanation of the phenomenon, *interest*, our author criticises the views advanced by Böhm-Bawerk, Wieser and Menger, respectively, and formulates for himself the "productivity" theory, in a modified form. His treatment of this question (p. 244) is too summary to do justice either to his own theory or to the theories of his opponents. Bearing upon this point, as upon many others, Walker's views are quoted with approval.

Philippovich looks to statistics for further light upon the difficult problem of distribution. On the basis of some very interesting tables which he gives of the distribution of income in various countries, he concludes that no real economic progress can be expected from a mere altered system of distribution, but that any proposal having for its object a radical social reform, to be effective, must include some plan by which the proportion between the total product and the number of individuals, among whom this product is to be divided, shall be altered for the better. It is not enough for socialism to show that it offers a more

equitable system of distribution than that at present exists ; it must also give promise of decided advances on the side of production before it merits serious consideration.

IV. Consumption. The second half of the fourth book of the *Volks-wirtschaftslehre* treats of the *use of goods*. What interests us especially is that which Philippovich has to say in regard to the position occupied by consumption in a general system of economics. In general, he says, consumption directs the course of production and determines the amount that shall be produced (p. 283). But, on the other hand, at any given time the prevalent distribution of income is the starting point determining the direction the demand for consumption-goods shall take. As human wants, and consequently the prices of goods are constantly changing, consumption is in a dynamic condition. Production must constantly be taking on new forms to meet the changing demand. Thus, economic life consists of a continual readjusting of the supply and of goods to a constantly varying demand for goods. Under normal conditions this adjustment of supply to a varying demand proceeds smoothly enough. Such slight losses and friction as it entails are readily overlooked. Let, however, some unexpected element, such as a radical change in the productive methods employed, enter the field and there ensues what is called a *commercial crisis*. This starts usually in some particular department of industry, but spreads rapidly until the whole economic organism is more or less seriously involved. Commercial crises are thus simply the results of a failure on the part of production to accommodate itself promptly to the demands of a variable consumption. They are inseparably bound up in our present "anarchistic" economic organization and may be expected to recur with greater or less regularity as long as this system is retained and consumption continues to be dynamic.

Perhaps the most interesting portion of Professor Philippovich's work to the foreign reader is found in the last part of his last book, where he speaks of the rôle at present played by economics in German politics. He gives a most interesting review of the evolution of the party program of the social democrats (pp. 324-327) and shows how their demands in the field of practical politics have little by little modified themselves to keep pace with the vast social reforms inaugurated by Bismarck and being followed out to their logical conclusions under Caprivi.

Under the title of "Social Reform Parties" he distinguishes three distinct directions: the liberal, the conservative and the direction followed by the church parties. These are all opposed on the one hand to the *laissez faire* policy advocated by the extreme individualists, and, upon the other, to the fundamental tenets held by the social

democrats. He characterizes the liberal reform party in the words of Brentano, its "scientific leader." It demands, upon the one hand, a retention of the existing institutions of private property and the freedom of contract, but, on the other, such interference and regulation from the side of the government as shall protect the weak and encourage the organization of the various industrial groups and classes that they may take a more active and direct part in industry so that competition may be really, as well as nominally, free.

The conservative social-reform party owes its origin to the writings of Rodbertus-Jagetzow. Its most prominent representatives at present are Adolph Wagner and Stöcker. Its direction may be characterized as socialistic in that it advocates an extension of the functions assumed by the State, in various directions, and recognizes taxation as a legitimate means to be employed for the purpose of equalizing the incomes of different classes in society, but it by no means deserves to be confused, as by some writers, with socialism proper.

The church party is divided into (1) Protestant, and (2) Catholic. Both of these look for social reform rather in the general moral regeneration of society than in any sweeping change in the existing political order. They differ principally in the amount of importance they ascribe to the State as an organ in effecting social reform.

Philippovich is careful to maintain his judicial tone in this part of his work, but from various indications the reader is justified in assuming that he himself takes a somewhat eclectic view of the various movements having social reform for their object.

It has of late years become so generally the custom among German professors of economics, when they have arrived at a certain stage in their academic careers, to embody their economic views into a more or less complete "system," that the literary market is fairly overstocked with this particular class of works. The general reading public is in the habit of passing by these manuals in silence. They help to fill up the shelves of those who pride themselves upon having "complete" libraries, and for the rest their existence is justified in that they are of great service to the students of the particular professor who happens to be their author; but it is seldom that they deserve to be classified among the real contributions to our science. In this review I hope to have made it clear that the "*Volkswirtschaftslehre*" of Professor Philippovich is calculated to take a position in many respects unique among German economic text-books, and that it is deserving of much more than a merely local attention. In the present unsettled state of political economy, when every day is bringing forth new ideas and new conceptions which only gradually fall into their proper perspective with reference to older theories and

older ways of thinking, it is no wonder that many of us feel some little confusion; we wonder where we really are and whither our science is actually tending. To such this new book of Philippovich is a positive boon. In it the author has made a conscientious and conspicuously successful attempt to place the new theories of the Austrian school in their proper light with reference to the older classical theories. Here the reader will find reproduced, in a remarkably compact and logical form, the best that contemporary Austrian and German thought and research have contributed to our science. A careful study of the "*Volkswirtschaftslehre*" cannot therefore be too strongly recommended to American economic students.

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RECENT WORKS ON MONETARY PROBLEMS.

*The Silver Situation in the United States.* By F. W. TAUSSIG, LL. B., Ph. D., Professor of Political Economy in Harvard University. Pp. 133. New York: G. P. Putnam's Sons. 1893.

*Das internationale Währungsproblem und dessen Lösung.* Von THEODOR HERTZKA. Pp. 136. Leipzig: Duncker und Humblot. 1892.

These two monographs, covering in part the same ground, viz., the use of silver as a medium of exchange, are of uncommon interest at this moment, when "silver" has become a burning question. Professor Taussig's book was originally published by the American Economic Association as No. 1 of Volume VII. of its publications; and in its present revised shape forms one of the "Questions of the Day" series. The first part is devoted to a careful delineation of silver legislation and its effects, beginning with 1878. The circulation of coin and notes, the concurrent effects of industrial changes such as the annual moving of the crops, and alternating eras of commercial depression and activity, the tendency of silver currency to find the vaults of the Treasury through the channels of taxation—all these complex reactions are scientifically traced, and their causes skilfully analyzed. The author's conclusions, that the issues under the Bland-Allison Act were not excessive, and that a complete theory of prices is dependent primarily on the volume of credit paper rather than upon the amount of actual currency, are eminently sound and sane. No less true is his verdict upon the excessive issues under the Act of 1890. The most interesting topic at the present time is the discussion of the question how a gold premium may eventually be reached. Here Professor Taussig shows that it may come in different ways, either preceded by speculation and inflation, or without any such